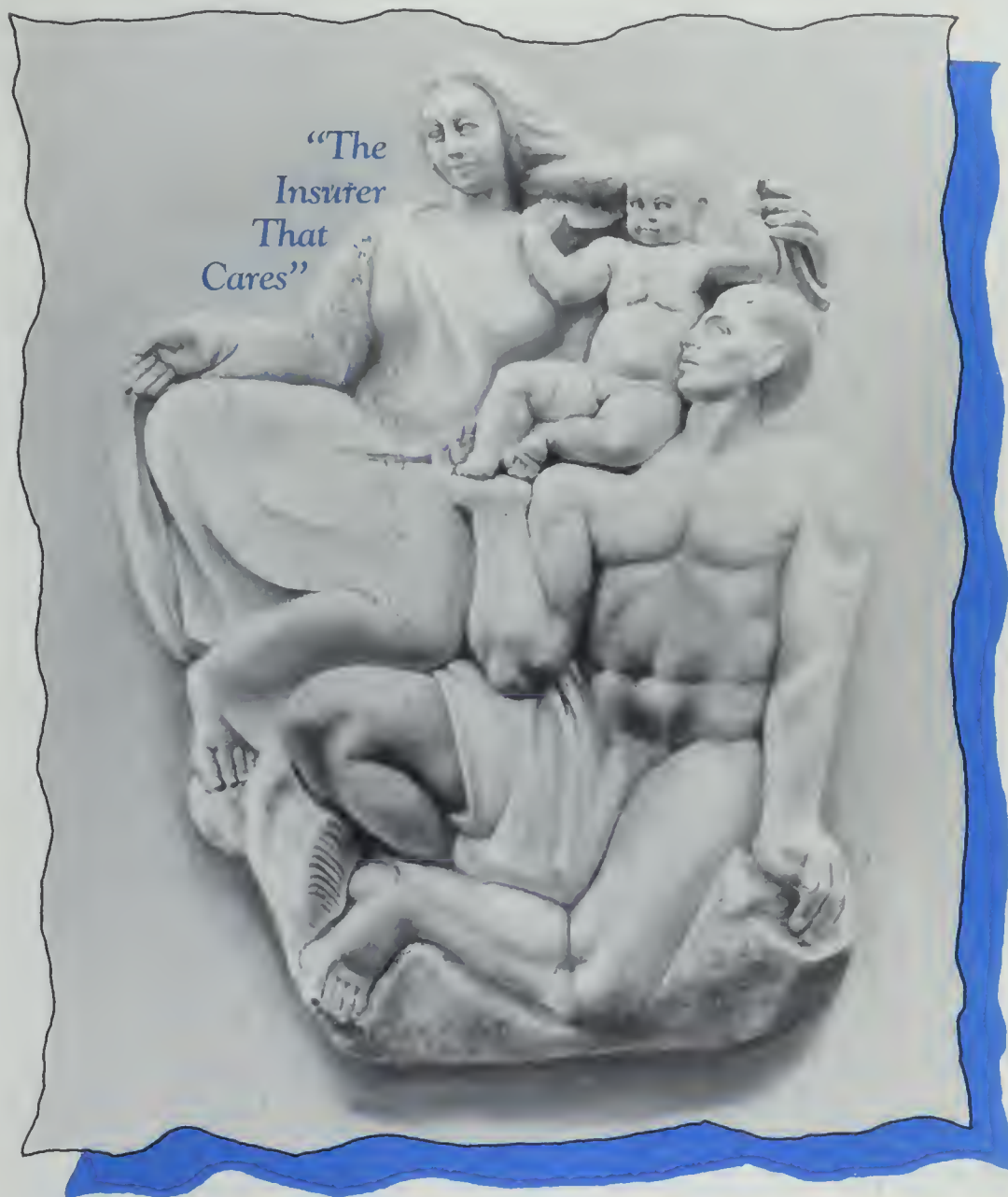
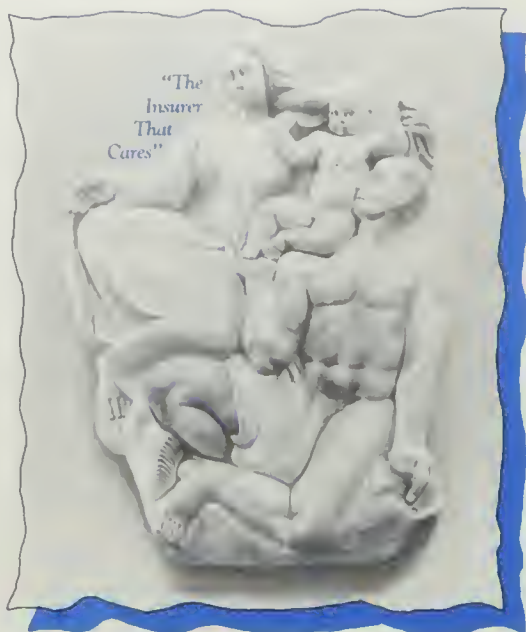


# THE STATE INSURANCE FUND



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Sculpture: "Unity of the Family" by Oronzio Maldarelli

*"With fine sculpture on it, a building looks as if somebody cared..."*

Lorimer Rich offered this appraisal of architectural design and he put it to use on many occasions to enhance his buildings, including the Home Office of The New York State Insurance Fund in 1954.

It couldn't have been a more harmonious union for "The Insurer That Cares" to be paired with architect Rich, who brought in sculptor Oronzio Maldarelli to create the marble sculpture that hangs on the Duane Street side of 199 Church Street.

Maldarelli called his allegorical sculpture "Unity of the Family," a title that fits nicely with The State Fund's mandate to provide security for New York State workers and their families through workers' compensation and disability benefits insurance, and equally well with the spirit expressed by Governor Cuomo's call for a "real New York State family."

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## Governor's Message

"Unity," the sculpture by Oronzio Maldarelli, graces the Duane Street side of The State Insurance Fund building. Depicting the "Unity of the Family" — Father, Mother and Child — the sculpture emphasizes the mandate and the work of The New York State Insurance Fund...to care for the "Family" of New York State; to provide quality compensation insurance coverage at the lowest possible cost to men and women who have suffered work-related injuries and disabilities; and to safeguard their families from financial hardship.

After the disastrous Triangle Shirtwaist fire of the early 1900's, our state, always foremost in humanitarian legislation, enacted the Workmen's Compensation Act of 1914. More than seven decades later, the State Fund continues to live up to its motto, "The Insurer That Cares," by providing workers' compensation insurance coverage to 181,781 policyholders, coupled with approximately \$3 billion in assets...a valuable resource for our state and the employers whom it serves.

The Fund in the future will, I'm sure, maintain its national role as an outstanding model of workers' compensation coverage.



Mario M. Cuomo  
Governor



## Chairman's Message

The State Fund's record of growth, progress and accomplishments in 1986 is indeed remarkable. The year has been highlighted by a series of extraordinary successes and milestones.

In a highly-competitive insurance marketplace, we maintained our position as New York State's largest writer of workers' compensation insurance coverage. Our policyholder numbers increased to 181,781 and assets rose to over \$3 billion.

Planned goals were surpassed as the increase in business across the state necessitated immediate expansion to meet the needs of the tremendous influx of new business and the space needs of additional staff. A new building was purchased in Albany to care for our policyholders in the Capital District and, simultaneously, renovation for additional space began in the Rochester and Hempstead District Offices.

Although we have not yet reached "state-of-the-art" computer status, we are nearing fruition to full on-line services in every department to better serve our policyholders and claimants. This Annual Report features the Data and Systems Department and details the many new and dynamic accomplishments of this year. Also, this year's financial pages will provide you with a more comprehensive financial statement than in previous years.

In the midst of extraordinary activity, we continued to extend to our policyholders quality compensation insurance coverage at the lowest possible cost, coupled with a viable discount. For the first time since 1933, in 1986 we were able to provide a 10% 'Special Dividend' resulting in a \$48 million refund to our policyholders.



The spirit of service exhibited by the Board of Commissioners and Executive Director Arnold Kideckel and his competent and dedicated staff made these outstanding achievements in 1986 possible.

We thank Governor Mario M. Cuomo and his Executive Departments for their support and cooperation as together we continue to pledge our best to the "Family" of New York State.

A handwritten signature in dark ink, reading "Martin A. Fischer". The signature is fluid and cursive, with the first name "Martin" being more prominent.

Martin A. Fischer  
Chairman



## Executive Director's Message

The celebration of the bicentennial of our Constitution reminds one that growth and prosperity can be obtained without sacrifice of founding principles and values. Indeed, that we are preeminent as a nation has been because of our continued and continuing fidelity to these principles and values.

The State Fund, too, continues to grow and flourish because it has been faithful to its founding purposes — to serve the workers and employers of our great state by making available workers' compensation and disability benefits insurance at the lowest cost possible, and with an expeditious and fair processing of claims.

I am proud to report that we reached new heights in 1986. Earned premium on workers' compensation policies rose from approximately \$388,000,000 in 1985 to \$525,000,000 in 1986, an increase of 35%. Our policyholder family also grew, from 163,853 in 1985 to 181,781 in 1986, an increase of 11%. Assets too were enhanced, from \$2.6 billion to almost \$3.3 billion.

For all our policyholders old and new and their employees we pledge to continue in our efforts to provide better and quicker service at as low a cost as possible. We will continue to provide stability and service to a turbulent insurance market.

The year was marked by additional computerization. New programs and new hardware, and augmented use of laser printers and automatic mail handling equipment, have improved our services. In addition, in 1987, we anticipate having in operation a direct entry system to accelerate the payments of claims.

Our Board of Commissioners declared a special 10% dividend to all qualified policyholders. We were thereby able to pass along the results of an excellent year to you, our policyholders.



Several significant personnel changes occurred during the year. Deputy Executive Director Stan Franczyk retired. Sadly, Pearl Freeman, Assistant Director of Underwriting, passed away while in her 43rd year of dedicated service.

We are delighted to have aboard two additions to our Executive Staff. Cecilia Norat is our new Deputy Executive Director. She brings a wealth of insurance experience, including service with Chubb & Son, Inc; Holt Corp. and its subsidiaries, Federated Reinsurance Corp. and C.I.U., Inc. Eugene R. Daniels III is our new Special Assistant to the Executive Director. Mr. Daniels comes to The State Insurance Fund with vast governmental experiences. We are confident they will enhance our progress and increase our services to you, our policyholders.

1986 also marked the 10th year of Martin Fischer's tenure as Chairman of the Board of Commissioners of The State Insurance Fund. We have often stated that our success would not

Continued

## GROWTH AND PROGRESS

The State Insurance Fund has experienced extraordinary growth over the course of the last nine years. The Fund's success has been skillfully guided by its Board of Commissioners, under the Chairmanship of Martin A. Fischer. Some of the outstanding achievements of these years include:

- Opening of a district office in Hempstead to more effectively service our Long Island assureds. Approximately 25-30% of all new State Fund business is now handled by the Hempstead office.
- Recent purchase of a new building for the Albany District Office to accommodate that area's tremendous influx of new business.
- A comprehensive computer conversion throughout the Fund, the primary goal of which has been to provide efficient, accurate and expeditious services to our claimants and assureds.
- The creation of a Public Information Office to provide ready, up-to-date information to the public and our policyholders; an Affirmative Action Office to secure the rights of protected class employees; and an Internal Audit Department to help guarantee our financial integrity.
- Raising the Advance Discount from 20% to its current level of 30% (if loss history is average) and 35% for renewal.
- Declaring a 10% Special Dividend, in 1986, totalling over \$48 million, to over 128,000 State Fund policyholders.

have been possible without his leadership, guidance and dedication. This is clearly evidenced by looking at The State Insurance Fund's progress during his tenure. When he became Chairman in 1977, there were 104,511 policyholders. Today, there are more than 181,000. Earned premium then was \$216,000,000, today, \$525,000,000. Assets were \$749,000,000, today, they are over \$3,000,000,000. During this period, the advance discount increased from 20% to its historical height of 35% for renewals. Special group discounts were 12% and are now 25%.

During his tenure, the Chairman and the Board of Commissioners developed many new policies which have played an important part in The State Insurance Fund's growth: Annual independent auditing by one of the big eight accounting firms; annual review of reserves by a prestigious independent actuarial firm; and the establishment of an internal audit department have assured confidence in our financial integrity.

Modern state-of-the-art computerization, new district offices, and the creation of a Public Information Office were additional innovative programs brought to The State Insurance Fund by Mr. Fischer and the Board.

All of the members of our Board of Commissioners, Martin A. Fischer, Chairman, Charles G. Moerdler, Vice-Chairman, Rivka Chatman, Louise Coste, Bart DiMattina, James H. Scholtz have brought and freely given a wealth of business experience, acumen, devotion and concern. This has enormously contributed to our success.

The State Insurance Fund is grateful to our Governor, Mario M. Cuomo, and the Legislature for the support which enabled us to achieve our goals to provide quality insurance at the lowest possible cost.

I am personally indebted to the 2,000 State Insurance Fund employees who day-in, day-out labor to the utmost to serve you and your employees and helped to make 1986 an outstanding year.



Arnold Kideckel  
Executive Director

## Across the State



### District Office Claims Managers

*Seated, from left: Robert MacEwan (Rochester); William Cribbs (Buffalo); Standing, from left: Robert Sammons (Albany); Norman Green (Hempstead); John Place (Syracuse).*

### DISTRICT OFFICES

879 Madison Avenue  
Albany, New York 12208  
(518) 458-2580  
Manager: Robert Sammons

161 Delaware Avenue  
Buffalo, New York 14202  
(716) 847-3653  
Manager: William Cribbs

159 North Franklin Street  
Hempstead, New York 11550  
(516) 538-7800  
Manager: Norman Green

24 Plymouth Avenue N.  
Rochester, New York 14614  
(716) 325-7242  
Manager: Robert MacEwan

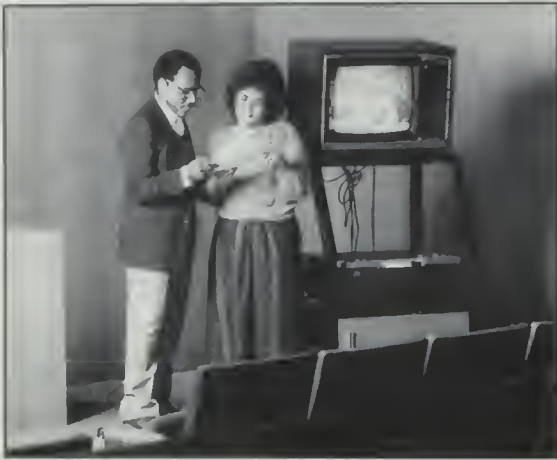
901 James Street  
Syracuse, New York 13203  
(315) 428-4881  
Manager: John Place

### HOME OFFICE

199 Church Street  
New York, New York 10007  
(212) 962-8900

## Meeting the Needs of Our Policyholders "We Were Always Here"

We at The State Insurance Fund have always felt a tremendous responsibility to our policyholders. Those departments who interact directly with assureds held training sessions throughout 1986 in order to keep up with the ever-changing needs of the insurance marketplace and the new technology.



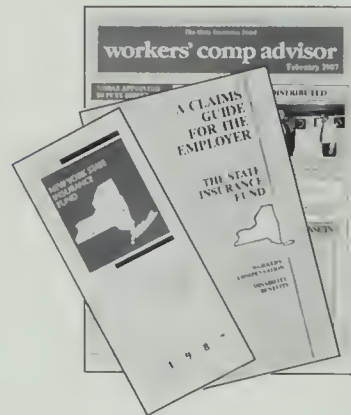
Field Service Reps. Norman Bumgardner and Hermine Weisman are shown at an internal Field Services training session.

Claims and Field Services personnel shared information and ideas at two well-attended departmental conferences in 1986. Employees from the Home and District Offices met to discuss new developments in their respective areas, as well as information pertinent to employees in their dealings with policyholders and claimants.

Executive Director Arnold Kideckel spoke at the Claims Conference of the Fund's rapid growth in business over the past several years. Retention of business was the emphasis of the Field Services event, with added focus on Safety Groups and Interdepartmental Synergism.

Participants at both conferences agreed that the exchange of knowledge and experience among peers was extremely beneficial to their work in providing up-to-date and expert service to the Fund's policyholders.

In order to keep the lines of communication open between the Fund and our policyholders, the Public Information Office develops and disseminates informational material, such as brochures, newsletters, Claims Guides, to the public as well as to Fund personnel. The policyholders' newsletter, the *workers' comp advisor*, is now distributed on a quarterly basis to provide more timely and relevant information. In 1986, the Fund's new exhibit display and audio-visual presentation — depicting the history of The State Insurance Fund, and the advantages of our coverage — were shown for the first time across the state at a series of trade shows and



conferences to current and potential policyholders. This Annual Report was produced by the Public Information Office staff for the further benefit of our 181,781 policyholders.



## Insurance Plans:

### WORKERS' COMPENSATION

Most employers select the **General Group Plan** as best suited to their needs. When merited, they receive an advance discount on renewal, which is guaranteed for the policy year regardless of losses incurred during the year. This is exclusive of any experience credit or debit that may have been promulgated by either the New York Compensation Insurance Rating Board or the Interstate Compensation Rating Bureau. It guarantees low cost insurance for employers whose safety records are average for their type of business.

**Safety Group Plans** are dividend participation plans designed for employers in the same trade or industry who, by cooperative effort, seek to curtail accidental injuries or occupational disease, thereby reducing their insurance costs. Qualified participants receive an advance 25% discount. In addition, individual experience ratings, when promulgated, are applied. Eight to ten months after completion of the policy year, a group accounting is made. Each group member receives a proportionate share of any dividend earned.

Employers with substantial annual premiums are eligible for **Retrospective Rating Plans**. The policyholder's net premium is determined largely by his own loss experience. The employer pays an estimated premium at the beginning of the period. Approximately eight to ten months after the completion of the policy period, its accident record is reviewed and the premium adjusted accordingly.

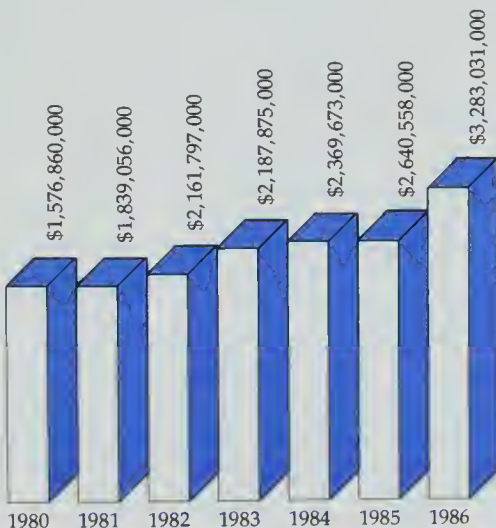
Low administrative costs and the simplicity of the retrospective formula are important advantages of The State Fund Plans as compared with others.

### DISABILITY BENEFITS INSURANCE

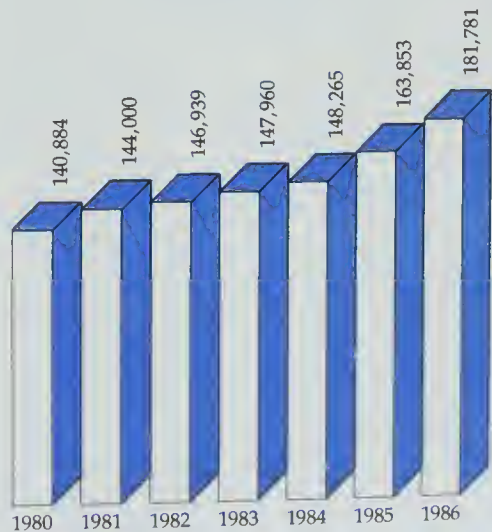
**Statutory Coverage:** The State Fund provides disability benefits insurance coverage at exceptionally low rates for employers in New York State whose needs can be met by statutory coverage. While the rates are calculated on the assumption that there will be no dividend, the Fund has declared many dividends over the past quarter century.

#### Assets

(workers' comp. and disability benefits)



#### Policyholders



# Steering The Fund



*Members of the State Fund Steering Committee review systems planning, progress, problems and solutions. Shown, seated, from left, are: Gloria Dawson (Secretary); Joseph E. Wallen (Chairman); Steven M. Licht (Vice-Chairman); Dr. Joseph W. Fischbach (consultant). Standing, from left: Louis Pischera; Alfred Stoloff; Catherine Taverna; Leonard Schnitzer; Irving Leshkowitz; Rama Eleswarapu; Albert DiMeglio; Joseph E. Szymkiewicz. (Not shown: Reuben Epstein.)*

Policyholders and claimants received more efficient services from The State Insurance Fund as a result of the massive modernization of its operating system in 1986. During the year, upgrading took on new phases in an effort to improve the Fund's operational productivity in a climate of unprecedented growth.

Many major objectives were accomplished. Among them were:

- Creation, storage and fast retrieval of data;
- Rapid response to requests for information;
- Reduction in paper use and storage;
- On-line entry of transactions.

Improvements in Information Systems have been widespread in 1986. Foremost is the availability of basic policy and claims information on computer terminals. Work on incoming policies will be improved with a proposed new quotation system and a rewrite/rejection system to clear up any discrepancies.

In 1986 Certificates of Insurance were issued in 1-2 days as opposed to 8-9 days with the old system. The handling of cancellations and reinstatement transactions has also been accelerated.

# To State-of-The-Art



*Shown in foreground, from left: Morris Thebner (Supervisor, EDP); Sitaram Tallapragada (Manager, DP Technical Services); in rear, from left: Dennis Gin (Supervisor, DP); and Diana Bain (Manager, DP Services).*

Unnecessary nonpayment cancellations were reduced in 1986 as a result of a Lock-Box program in which bills due to the Fund are received and processed. This allows for faster processing of monies and reduces error.



*Diana Bain is shown at terminal, while Sitaram Tallapragada, Joseph E. Szymkiewicz (Director, Data & Systems) and Rama Eleswarapu (Assistant Director, Data & Systems) are at rear in front of tape drive.*

All bills and a large number of documents, in 1986, were printed by the State Fund's Laser Printer. Printing time is reduced as the Laser produces two pages per second. Use of automated mail handling equipment also expedited the handling and output of materials.

In 1986 handling of the Fund's disability benefits policies also went through extensive change. Development of disability benefits systems will generally follow a similar pattern in the near future, to workers' comp. systems.

The work is ongoing. Planned for the future are:

- New compensation payment system and a new medical payment system;
- System allowing for electronic data exchange between SIF and outside computers;
- Archival preservation system;
- Disaster recovery program.

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## State of the Fund

### Balance Sheets—Statutory Basis

#### WORKERS' COMPENSATION FUND (In Thousands)

	December 31	
	1986	1985
<b>ADMITTED ASSETS</b>		
Investments – Note E:		
Bonds and notes .....	\$2,214,493	\$2,223,142
Insured FHA Mortgages .....	2,430	3,115
Short-term investments .....	380,155	74,627
Collateral loans (repurchase agreements) .....	50,450	10,800
TOTAL INVESTMENTS .....	2,647,528	2,311,684
Cash – Note E .....	8,784	6,256
Real estate – Note F .....	6,262	4,068
Premiums in course of collection, less reinsurance balance		
payable of \$277 in 1986 and \$210 in 1985 .....	24,205	40,080
Accrued interest .....	55,282	58,607
Contingent receivable from New York State – Note H .....	515,000	190,000
Receivable from New York State – Note J .....	6,305	9,024
Receivable from Disability Benefits Fund – Note J .....	1,530	1,463
Other assets .....	924	2,502
	<u>\$3,265,820</u>	<u>\$2,623,684</u>
<b>LIABILITIES AND SURPLUS</b>		
Liabilities:		
Losses — Notes C and D .....	\$1,659,824	\$1,875,980
Loss adjustment expenses .....	180,521	160,446
Unearned premiums .....	168,578	129,659
Future expenses of the Workers' Compensation Board .....	145,243	126,453
Payable to New York State — Note H .....	325,000	
Contingent policyholder dividends .....	80,489	68,466
Accrued expenses and other liabilities .....	28,512	37,442
	2,588,167	2,398,446
Surplus:		
Reserve for security fluctuations .....	100,000	100,000
Reserve for catastrophes .....	25,000	25,000
Unassigned surplus .....	552,653	100,238
	677,653	225,238
TOTAL LIABILITIES AND SURPLUS .....	<u>\$3,265,820</u>	<u>\$2,623,684</u>

See notes to financial statements — statutory basis.

### Statements of Changes in Surplus—Statutory Basis

#### WORKERS' COMPENSATION FUND (In Thousands)

Balance at January 1, 1985 .....	\$225,750
Net Loss .....	(3,259)
Accretion of bond discount, net .....	2,562
Decrease in nonadmitted assets .....	185
BALANCE AT DECEMBER 31, 1985 .....	225,238
Net income .....	462,925
Accretion of bond discount, net .....	6,394
Increase in nonadmitted assets .....	(16,904)
BALANCE AT DECEMBER 31, 1986 .....	<u>\$677,653</u>

See notes to financial statements — statutory basis.



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INSURANCE FUND

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## Statements of Operations—Statutory Basis

### WORKERS' COMPENSATION FUND (In Thousands)

	Year Ended December 31	
	1986	1985
Revenues:		
Premiums:		
Premiums written .....	\$564,316	\$415,294
Increase in unearned premiums .....	(38,919)	(27,395)
	525,397	387,899
Interest income, less expenses of \$4,152 in 1986 and \$4,611 in 1985 .....	243,970	236,618
Other income .....	3,780	3,314
	773,147	627,831
Losses and expenses:		
Losses incurred .....	523,168	452,242
Loss adjustment expenses incurred .....	67,052	68,544
Other underwriting expenses .....	70,692	90,918
Dividends to policyholders .....	83,053	16,552
Other expenses .....	6,598	7,261
	750,563	635,517
INCOME (LOSS) BEFORE REALIZED GAINS AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE .....	22,584	(7,686)
Realized gains .....	11,086	4,427
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE .....	33,670	(3,259)
Cumulative effect on years prior to 1986 due to change in accounting principle — Note D .....	429,255	
NET INCOME (LOSS) .....	<u>\$462,925</u>	<u>\$ (3,259)</u>

See notes to financial statements — statutory basis.

## Statements of Cash Flow—Statutory Basis

### WORKERS' COMPENSATION FUND (In Thousands)

	Year Ended December 31	
	1986	1985
<b>SOURCES OF CASH</b>		
From operations:		
Premiums collected, net of reinsurance .....	\$549,684	\$388,504
Loss and loss adjustment expenses paid .....	(356,684)	(311,949)
Underwriting expenses paid .....	(52,797)	(41,426)
Other underwriting income .....	3,784	2,151
CASH FROM UNDERWRITING .....	143,987	37,280
Investment income, net of investment expense .....	247,447	234,750
Other income .....	543	92
Dividends paid to policyholders .....	(68,886)	(20,340)
NET CASH FROM OPERATIONS .....	323,091	251,782
Proceeds from investments sold, matured or repaid .....	294,066	480,882
Other cash provided:		
Increase (decrease) in bank overdraft .....	(8,337)	4,428
Net transfers from affiliates — Note J .....	13,136	16,187
	621,956	753,279
<b>USES OF CASH</b>		
Cost of investments acquired .....	274,250	814,948
INCREASE (DECREASE) IN CASH, SHORT-TERM INVESTMENTS AND COLLATERAL LOANS .....	<u>\$347,706</u>	<u>\$(61,669)</u>

See notes to financial statements — statutory basis.

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## Balance Sheets—Statutory Basis

### DISABILITY BENEFITS FUND (In Thousands)

	December 31	
	1986	1985
<b>ADMITTED ASSETS</b>		
Investments – Note E:		
Bonds and notes .....	\$ 9,563	\$12,329
Short-term investments .....	5,679	3,530
Collateral loans (repurchase agreements) .....	<u>1,300</u>	
TOTAL INVESTMENTS .....	16,542	15,859
Cash – Note E .....	14	72
Premiums in course of collection .....	389	471
Accrued interest .....	<u>266</u>	<u>472</u>
	<u>\$17,211</u>	<u>\$16,874</u>
<b>LIABILITIES AND SURPLUS</b>		
Liabilities:		
Losses – Note C .....	\$ 5,108	\$ 5,429
Loss adjustment expenses .....	432	429
Accrued expenses and other liabilities .....	<u>2,705</u>	<u>2,750</u>
	8,245	8,608
Surplus:		
Reserve for security fluctuations .....	1,500	1,500
Reserve for catastrophes .....	700	700
Unassigned surplus .....	<u>6,766</u>	<u>6,066</u>
	8,966	8,266
TOTAL LIABILITIES AND SURPLUS .....	<u>\$17,211</u>	<u>\$16,874</u>

See notes to financial statements — statutory basis.

## Statements of Changes in Surplus—Statutory Basis

### DISABILITY BENEFITS FUND (In Thousands)

Balance at January 1, 1985 .....	\$9,872
Net Loss .....	(1,865)
Accretion of bond discount, net .....	21
Decrease in nonadmitted assets .....	<u>238</u>
BALANCE AT DECEMBER 31, 1985 .....	8,266
Net income .....	698
Accretion of bond discount, net .....	102
Increase in nonadmitted assets .....	<u>(100)</u>
BALANCE AT DECEMBER 31, 1986 .....	<u>\$8,966</u>

See notes to financial statements — statutory basis.

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Statements of Operations—Statutory Basis

DISABILITY BENEFITS FUND (In Thousands)

	Year Ended December 31	
	1986	1985
Revenues:		
Premiums:		
Premiums written .....	\$17,886	\$15,728
Increase in unearned premiums .....	(83)	(625)
	17,803	15,103
Interest income, less expenses of \$26 in 1986 and \$22 in 1985 .....	1,298	1,522
Other income .....	273	238
	19,374	16,863
Losses and expenses:		
Losses incurred .....	14,289	14,705
Loss adjustment expenses incurred .....	863	894
Other underwriting expenses .....	2,965	2,661
Other expenses .....	562	459
	18,679	18,719
INCOME (LOSS) BEFORE REALIZED GAINS (LOSSES) .....	695	(1,856)
Realized gains (losses) .....	3	(9)
NET INCOME (LOSS) .....	\$ 698	\$ (1,865)

See notes to financial statements — statutory basis.

Statements of Cash Flow—Statutory Basis

DISABILITY BENEFITS FUND (In Thousands)

	Year Ended December 31	
	1986	1985
<b>SOURCES OF CASH</b>		
From operations:		
Premiums collected, net of reinsurance .....	\$17,550	\$15,822
Loss and loss adjustment expenses paid .....	(15,471)	(14,852)
Underwriting expenses paid .....	(3,195)	(2,337)
Other underwriting income .....	14	3
CASH USED IN UNDERWRITING .....	(1,102)	(1,364)
Investment income, net of investment expense .....	1,505	1,494
Other income .....	21	8
NET CASH FROM OPERATIONS .....	424	138
Proceeds from investments sold, matured or repaid .....	4,316	1,191
Increase in bank overdraft .....	71	89
	4,811	1,418
<b>USES OF CASH</b>		
Cost of investments acquired .....	1,487	520
Other cash applied:		
Net transfers (from) to affiliates — Note J .....	(67)	354
	1,420	874
INCREASE IN CASH, SHORT-TERM INVESTMENTS AND COLLATERAL LOANS .....	\$ 3,391	\$ 544

See notes to financial statements — statutory basis.

## Board of Commissioners The State Insurance Fund New York, New York

We have examined the statutory-basis balance sheets of The State Insurance Fund (Workers' Compensation and Disability Benefits Funds) as of December 31, 1986 and 1985, and the related statutory-basis statements of operations, changes in surplus, and cash flow for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Fund presents its financial statements in conformity with the accounting practices prescribed or permitted by the New York State Insurance Department. The variances between such practices and generally accepted accounting principles are described in Note B.

It is our opinion that, because of the materiality of the effects of the differences between generally accepted accounting principles and the accounting practices referred to in the preceding paragraph, the accompanying financial statements do not present fairly the financial position of The State Insurance Fund at December 31, 1986 and 1985, or the results of its operations or cash flow for the years then ended, in conformity with generally accepted accounting principles.

In our opinion, however, the statutory-basis financial statements referred to above presents fairly the financial position of The State Insurance Fund at December 31, 1986 and 1985, and the results of its operations, changes in surplus, and cash flow for the years then ended, in conformity with accounting practices prescribed or permitted by the New York State Insurance Department consistently applied during the period except for the change, with which we concur, in the method of determining the liability for unpaid losses as described in Notes C and D to the financial statements.

*Ernst & Whinney*

New York, New York  
April 3, 1987

## Notes to Financial Statements—Statutory Basis The State Insurance Fund

### NOTE A – ORGANIZATION

The State Insurance Fund (the "Fund"), which includes the operations of the Workers' Compensation Fund and the Disability Benefits Fund, is a nonprofit agency of the State of New York. By statute, the Fund maintains separate records for each fund.

The Fund was established by law in 1914 for the primary purpose of providing workers' compensation and disability benefits insurance for employees in the State of New York.

Workers' compensation insurance covers job-connected disabilities and includes the cost of medical treatment. Disability benefits insurance covers off-the-job injury and sickness, but not medical care payments.

### NOTE B – BASIS OF PRESENTATION

The accompanying financial statements are prepared on the basis of accounting practices prescribed or permitted by the New York State Insurance Department, which vary in certain respects from generally accepted accounting principles (GAAP), as follows:

All nonadmitted assets (principally overdue premiums in the course of collection and office furniture and equipment) are charged against surplus. Under GAAP, such nonadmitted assets would be recorded as assets, less valuation allowances or accumulated depreciation.

Amortization of premium and accretion of discount on bonds held at December 31, 1986 is recorded as unrealized gain or loss and is recognized as income when sold. Under GAAP, the accretion and amortization would be included in investment income when accrued.

All policy acquisition costs (principally underwriting and marketing related costs) are charged to expenses as incurred, rather than deferred and amortized over the life of the related policies.

The Fund records initial premiums when due. Any subsequent premiums are recorded when determined and billed to policyholders. Under GAAP, estimated premiums would be recognized as revenue over the period of the contract in proportion to the amount of insurance protection provided.

Salvage and subrogation recoveries are recorded when received, rather than estimated at the time the related loss is incurred.

The liability for unpaid losses is discounted to its present value using an interest rate of 3½%. Under GAAP, the loss adjustment expenses also would be discounted and the interest rate used would be based on market rates and earnings expectations.

The contingent receivable (Note H) of \$515,000,000 from New York State has no due date. This contingent receivable is carried at the amount transferred to the State without considerations of imputed interest.

### NOTE C – OTHER SIGNIFICANT ACCOUNTING POLICIES

In addition to the accounting policies described in Note B, the Fund prepares its financial statements in accordance with the following other significant accounting policies:

**Investments:** Bonds and notes are stated at amortized cost; short-term investments and collateral loans are stated at cost which approximates market; and mortgages are stated at unpaid principal balance. Gains or losses on disposal of investments are determined on a specific identification method based on the difference between the original cost and the consideration received at the time of sale and included in the results of operations.

**Premiums in the course of collection and related accounts:** The Fund records premiums in the course of collection as an admitted asset if the effective date is within 90 days (180 days for premium bills based on payroll audits) of the valuation date and if no previous bill is considered nonadmitted.

The Workers' Compensation Fund's unearned premiums represent the pro rata portion of initial premiums billed which are applicable to the unexpired terms of policies in force at the end of the year.



**Property and depreciation:** The Fund depreciates buildings over estimated useful lives ranging from 25 to 40 years, using the straight-line method. All property owned by the Fund is used substantially for its own operations.

**Future expenses of the Workers' Compensation Board:** The Workers' Compensation Fund, together with other insurance carriers, is required to contribute toward the expenses of the Workers' Compensation Board in proportion to respective indemnity payments.

The Disability Benefits Fund contributes toward the expense of the Workers' Compensation Board based on payroll reported. Such liability has been established by the application of a factor based on the latest Workers' Compensation Board billing to the Fund.

**Liabilities for losses and loss adjustment expenses:** Liabilities for outstanding losses and loss adjustment expenses for the Workers' Compensation Fund are based on individual case estimates and formula reserves. Additional liabilities, based on past experience, are provided for losses incurred but not reported.

At December 31, 1986, the liability for losses indemnifying insureds for disability and medical claims is discounted to its present value using a 3½% interest rate. The liability for loss adjustment expenses is not discounted and is stated at ultimate cost.

Liabilities for the Disability Benefits Fund are based on individual case estimates for losses attributable to policy years prior to the current year, and on an average cost basis for the current year and for claims incurred but not yet reported. These liabilities also include expenses for investigating and settling claims.

All such liabilities are based on the Fund's best estimate and changes, if any, are reflected in operations when determined.

**Contingent policyholder dividends:** The New York State Workers' Compensation Law provides that dividends may be paid to safety groups that, by cooperative effort, seek to curtail accidental injuries and occupational diseases. The estimated liability recorded by the Workers' Compensation Fund is based on the available contingent balance from the last group accounting (premiums billed less losses incurred, expenses, and previous dividends) and an estimate of the contingent balance for the period since the last group accounting. The dividends paid during the year and the change in the contingent balance from one year to the next are reflected in the statement of operations.

**Special dividend:** In 1986, a special 10% dividend was declared on policies which expired during 1985. The dividend was applied against Workers' Compensation Board rated premiums. Depending on the policy, the dividend was either paid in cash, credited against the insured's receivable balance, or established as a liability. The dividend amounted to \$48,253,000.

**Special surplus funds:** The Board of Commissioners may, at its discretion, designate a reserve for catastrophes as a reasonable portion of unassigned surplus. The Board may also designate a reserve for security fluctuations to provide for the difference between the amortized cost of securities and market value.

**Retirement plan:** All employees of the Fund are covered under a plan administered by the New York State

Employees Retirement System. The plan is noncontributory for employees hired prior to 1976, and partially contributory for employees hired after this date. Pension expense for the Workers' Compensation Fund and the Disability Benefits Fund was \$2,771,000 in 1986 and \$6,102,000 in 1985 and \$148,000 in 1986 and \$244,000 in 1985, respectively. The pension accrual for the Workers' Compensation Fund and the Disability Benefits Fund was \$8,601,000 in 1986 and \$10,908,000 in 1985 and \$189,000 in 1986 and \$247,000 in 1985, respectively. The Fund's obligations to the plan were accrued as of December 31, 1986 and 1985.

**Income Tax:** As an agency of the State of New York, the Fund is exempt from federal income taxes.

**Account Reclassification:** Certain of the 1985 amounts have been reclassified to conform to the 1986 presentation.

#### NOTE D - ACCOUNTING CHANGE

Prior to 1986, the liabilities for losses and loss adjustment expenses were based on estimates of the ultimate cost of all losses incurred but unpaid. Effective January 1, 1986, the Fund (the workers' compensation portion only) changed its method of determining its liability for unpaid losses by discounting the liability to its estimated present value using an interest rate of 3½%. (The liability for loss adjustment expenses has not been discounted and is carried at the ultimate cost.) The effect of this change was to decrease the liability for unpaid losses by \$477,485,000 as of December 31, 1986. The change for 1986 has been reflected in the accompanying statements of operations as an increase in income before cumulative effect of change in accounting principle, and amounted to \$48,230,000. The change for years prior to 1986 is reflected as a cumulative effect adjustment, and is \$429,255,000. The Fund believes that discounting is appropriate because it established a liability based more on the economic reality of how indemnity losses are paid out over a period of years. The Fund's previously reported 1985 net loss of \$3,259,000 would have changed to net income of \$39,596,000 if the foregoing changes, using the same assumptions as in 1986, would have been applied in 1985.

#### NOTE E - CASH AND INVESTMENTS

Except for imprest accounts and securities in transit, all cash and investment accounts are under the custody of the Commissioner of Taxation and Finance of the State of New York, as prescribed by the State Workers' Compensation Law. Bonds, notes, and short-term investments held by the Fund were as follows:

	Amortized Cost	Market Value
	(In Thousands)	
	December 31, 1986	
Workers' Compensation Fund:		
U.S. government and government agency obligations	\$2,130,230	\$2,320,370
New York State obligations	253,043	253,242
Corporate bonds	211,375	233,298
	<u>\$2,594,648</u>	<u>\$2,806,910</u>
Disability Benefits Fund:		
U.S. government and government agency obligations	\$ 12,015	\$ 12,053
Corporate bonds	3,227	3,303
	<u>\$ 15,242</u>	<u>\$ 15,356</u>

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Workers' Compensation Fund:		
U.S. government and government agency obligations	\$1,738,330	\$1,854,508
New York State obligations	253,289	232,325
Corporate bonds	306,150	324,203
	<u>\$2,297,769</u>	<u>\$2,411,036</u>
Disability Benefits Fund:		
U.S. government and government agency obligations	\$ 11,193	\$ 10,685
Corporate bonds	4,666	4,386
	<u>\$ 15,859</u>	<u>\$ 15,071</u>

Market values are based on the National Association of Insurance Commissioners' "Valuation of Securities" Guide.

#### NOTE F - REAL ESTATE

The Workers' Compensation Fund owned real estate at December 31, 1986 and 1985 as follows (in thousands):

	December 31	
	1986	1985
Office buildings	\$10,789	\$ 8,396
Less accumulated depreciation	<u>(6,193)</u>	<u>(5,894)</u>
	4,596	2,502
Land	<u>1,666</u>	<u>1,566</u>
	<u>\$ 6,262</u>	<u>\$ 4,068</u>

#### NOTE G - NONADMITTED ASSETS

The nonadmitted assets of the Fund were as follows (in thousands):

	Workers' Compensation Fund		Disability Benefits Fund	
	December 31		December 31	
	1986	1985	1986	1985
Overdue premiums in course of collection	\$57,144	\$40,327	\$712	\$611
Furniture and equipment	4,289	3,869	72	70
Less accumulated depreciation	(3,339)	(3,012)	(54)	(51)
Other	52	58		
	<u>\$58,146</u>	<u>\$41,242</u>	<u>\$730</u>	<u>\$630</u>

#### NOTE H - TRANSACTIONS WITH NEW YORK STATE

The Fund is required to loan to the State of New York (the "State") \$515,000,000, which is noninterest bearing and is included in the accompanying balance sheet as a contingent receivable due to the repayment conditions. Chapter 55 of the New York State laws of 1982 required the Fund to pay \$190,000,000 out of its surplus to the general fund of the State, and on April 8, 1986 Chapter 28 of the laws of 1986 authorized and directed the Fund to transfer an additional \$325,000,000 to the general fund of the State by March 1, 1987. The \$325,000,000 was paid in three installments, the final payment being made on February 26, 1987. At December 31, 1986, the \$325,000,000 is shown as a receivable and a payable to New York State in the accompanying balance sheets. The statutes require that the State appropriate \$515,000,000 annually for the potential repayment of any amount of the \$515,000,000. Such repayment by the State is

required only to maintain the solvency, as defined, of the Fund. This statute specifically permitted the contingent receivable to be admitted as an asset.

#### NOTE I - REINSURANCE

The Fund, through the Workers' Compensation Fund, has reinsurance contracts to limit the impact of catastrophe losses in excess of \$2,000,000 per occurrence up to a maximum of \$50,000,000 at December 31, 1986, with regard to workers' compensation claims. In 1985, the maximum reinsurance coverage maintained by the Fund was \$75,000,000. Premiums earned, as shown in the statement of operations (Workers' Compensation Fund), have been reduced by \$1,493,000 and \$1,017,000 in 1986 and 1985, respectively, for reinsurance premiums ceded. As of December 31, 1986 and 1985, there were no significant reductions to the liabilities for losses, loss adjustment expenses, or unearned premiums due to reinsurance transactions.

The Fund would remain liable to policyholders to the extent the reinsurers are unable to honor their obligations.

#### NOTE J - RELATED PARTY TRANSACTIONS

The Workers' Compensation Fund allocates the cost of services rendered to the Disability Benefits Fund based on a percentage of the Disability Benefits Fund's direct and indirect salary to total salary expense. The income and expense incurred in 1986 and 1985 by the Workers' Compensation and Disability Benefits Funds, was \$1,530,000 and \$1,463,000, respectively.

The Fund acts as claim administrator for the State of New York, which self-insures its liability for workers' compensation claims. The Fund is reimbursed for losses, loss adjustment expenses, reinsurance and administrative expenses paid on behalf of the State. The Fund receives no fees for services performed. During 1986 and 1985, the State reimbursed the Fund \$59,024,000 and \$49,938,000, respectively, for such costs. The Fund had billed the State \$10,982,000 and \$13,467,000 for services in advance as of December 31, 1986 and 1985, respectively, of which \$6,305,000 and \$9,024,000 was unpaid at December 31, 1986 and 1985, respectively. The State is credited with interest income for amounts paid in advance to the Fund. The Fund credited the State with \$481,000 and \$572,000 of interest earned during 1986 and 1985, respectively.

The Fund acts as the custodian and administrator of the Aggregate Trust Fund (ATF) by paying losses on behalf of the ATF. The Fund charges the ATF an administrative fee of 3% of paid losses for such services. The total administrative fees charged to the ATF during 1986 and 1985 were \$436,000 and \$413,000, respectively, of which \$122,000 and \$118,000 remained unpaid at December 31, 1986 and 1985, respectively.

#### NOTE K - SUBSEQUENT EVENT

Currently, a budget bill is pending before both the Senate and Assembly of the State of New York, which authorizes and directs the Fund to transfer an additional \$150,000,000 to the general fund of the State and an additional \$150,000,000 to the State's capital projects fund by March 1, 1988. The statute also provides for an annual dry appropriation to the Fund in place of the sum transferred. This legislation is patterned after Chapter 55 of the Laws of 1982 under which a similar transfer of \$190,000,000 was held to be constitutional. The repayment terms of the additional \$300,000,000 by the State to the Fund would be the same as described in Note H - Transactions with New York State.



## Board of Commissioners

Seated, from left: Chairman Martin A. Fischer, Esq., Counsel, Warshaw Burstein Cohen Schlesinger & Kuh; Vice-Chairman Charles G. Moerdler, Esq., Partner, Stroock & Stroock & Lavan. Standing, from left: Louise Coste, President, The Coste Agency, Inc.; Rivka Chatman, Project Director, Community Partners for Youth; James H. Scholtz, President, Schenectady Plymouth, Inc.; Bart DiMattina, Vice President, Funds, New York Shipping Association, Inc. (Not shown: Hon. Lillian Roberts, N.Y.S. Commissioner of Labor, who serves ex-officio.)

## Executive Staff

Seated, from left: Deputy Executive Director Cecilia E. Norat; Executive Director Arnold Kideckel; First Deputy Executive Director Donald G. Vass. Standing, from left: Public Information Officer Maria J. VanHoy; Director of Investigation and Internal Audit John Tuccillo; Affirmative Action Officer Carolyn Pitts; Special Assistant to Executive Director Eugene R. Daniels III; Special Counsel Daniel F. McDonald. (Not shown: Secretary to the Board of Commissioners Carol W. Opton; Executive Secretary Marjorie Hodges.)



## Department Heads

Front row, from left: Justin Schulman, Actuary; Arnold Kideckel, Executive Director; Raymond C. Green, General Attorney; Herbert Jacobs, Underwriting; Albert C. Todaro, Fiscal Management and Investment; back row, from left: Murray D. Caplan, Payroll Audit; James Rourke, Field Services; Joseph E. Szymkiewicz, Data & Systems; Morris Jacobs, Compensation Claims and Medical Administration; Irving Welch, Administration.





